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## Japan

### Agricultural Situation

## Japan Embarks on a Drastic Change in its Farm Subsidy Scheme

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**Approved by:**

Clay Hamilton  
U.S. Embassy

**Prepared by:**

Hisao Fukuda

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**Report Highlights:**

On October 27, the Ministry of Agriculture, Forestry and Fisheries (MAFF) announced the outline of a new farm subsidy program that departs from the current commodity-specific support given to practically all farmers and launches direct payments targeting larger scale farmers. Following promulgation of necessary legislation in the next Japanese fiscal year (JFY), the new scheme is scheduled to commence in JFY 2007.

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On October 27, the Ministry of Agriculture, Forestry and Fisheries (MAFF) announced the outline of a new farm subsidy program that departs from the current commodity-specific support given to practically all farmers and calls for direct payments targeting larger scale farmers. Following drafting of the necessary legislation in the next Japanese fiscal year (JFY), the new scheme is scheduled to commence in JFY 2007.

## Background

Simply put, farm subsidies in Japan have, for decades, had two major features: 1) Different amounts are paid based on the commodities produced, and 2) All farmers, regardless of size qualify as eligible recipients. In a way, the current scheme provides additional social security to rural communities in that it aims to fill the income gap between farming households and urban dwellers. However, now that nearly 80 percent of farmers are part-time farmers, earning approximately 2/3 of their income in non-agricultural sectors and that the average farm household annual income is greater than the national average (8.28 million yen and 6.17 million yen respectively in 2000), the role of the existing farm support program has ended.

From an international perspective, the movement in farm support policy in developed nations has clearly turned toward so-called "green box" measures as defined by the World Trade Organization (WTO), the core feature of which is de-coupled direct payments that will help fill the cost/price gap between specified domestic farm products and imports. This shift away from blanket commodity-based farm subsidies to targeted direct payments means that, in principle, the cost of farm subsidies will be borne by taxpayers, not by consumers at large. (Currently, consumers indirectly pay for these subsidies in the form of high prices of farm products.)

## Major features of the new subsidy scheme

### 1. Measure to rectify the difference in production conditions with foreign countries

#### 1) Eligibility to receive payments

Recipients must fulfill all of the following criteria:

i. Farmers who are certified by each community as "core farmers" (hereinafter referred to as "certified farmers") or farmer organizations that aim to farm over 2/3 of the farmland in the community in a consolidated manner ("specified farmer organizations") (note: The definition of a "community" is vague and may be composed of a small number of farms with total acreage of 20 to 40 ha).

ii. A minimum size of farmland to be cultivated:

Target	Area	
	Hokkaido	Other areas
Certified farmers	10	4
Specified farmer organizations	20	20

Unit: Hectares (1 hectare = 2.47 acres)

However, these minimum acreage requirements can be relaxed by request through prefectural governors under the following conditions:

- a. Can be reduced by 20% when the farmland is located in places where it is physically/geographically difficult to have the targeted acreage. (For upland farming, can be reduced by up to 50%.)
- b. For organizations that are commissioned to manage more than half of the community's farmland for the rice acreage adjustment/reduction program, depending on the rate of their success in achieving the acreage reduction goals, (*Note 1*), the minimum requirement of 20 hectares can be reduced to 7 hectares. (For upland farming, it may be reduced to 4 hectares.) (Average farm size varies from 17.46 ha in Hokkaido to 1.26 ha outside of Hokkaido).

*Note 1. For details of Japan's Rice Policy, please refer to:  
 "Rice Sector Policies in Japan," Outlook Report from the Economic  
 Research Service, USDA, March 2003; and "Japan's Proposed Rice  
 Reforms," GAIN Report #JA3012, February 2003.*

- c. If the farmer/organization is producing targeted farm products as core items and generating a high level of income by such practices as organic farming and multiple (crop) management, individual considerations will be given.

## 2) Targeted farm products

wheat (including barley), soybeans, sugar beets and potatoes for starch production

## 3) Details of the subsidy amount

The figures below are calculated based on the current difference between the cost of domestic production and sales (farm gate) price, therefore, they are subject to change when the new program is implemented.

Commodity	Amount
Wheat	40,200 yen/ 10 ares (or 6,400 yen/ 60 KG)
Soybeans	30,200 yen/ 10 ares (or 8,840 yen/ 60 KG)
Sugar beets	42,800 yen/ 10 ares (or 7,660 yen/ MT)
Potatoes for starch	53,300 yen/ 10 ares (or 12,400 yen/ MT)

(10 ares = 0.247 acre)

## 2. Measure to relieve impact of income (price) fluctuations

### 1) Eligibility to receive payments

Same as for above direct payments.

### 2) Targeted farm products

rice, wheat, soybeans, sugar beets, and potatoes for starch production

### 3) Details of the subsidy

For each of the above listed products, incomes of the previous five years are taken, the highest and the lowest dismissed, and then the average of the remaining three years is

calculated. In case the income of a particular year falls below the average, 90 percent of the difference between the year's income and the average will be subsidized. In the case where a farmer receives payment under the disaster relief program, the subsidy will be adjusted as needed so that the farmer is not compensated twice for a reduced harvest.

Finances for this relief fund will be borne between the national government and the farmers by the ratio of 3 to 1, with farmer contributions most often deducted from their sales receipts.

### 3. Measure to maintain farmland, water and environment

#### 1) Eligibility to receive payments

In order to maintain and improve the quality of the farmland, water and environment for the future, each community may form a group (an organization) where farmer and/or non-farmers are united for the cause. If the plan by the group/organization meets the national and prefectural guidelines (to be established), it will be eligible to receive payments.

#### 2) Specific activities that may be eligible

The following are a few examples of collective efforts by the community that are considered to be eligible:

- Maintenance/cleaning of irrigation canals
- Maintenance/inspection of agricultural infrastructure i.e. facilities and roads

#### 3) Details of the subsidy (under consideration)

Target	Amount (Yen/ 10 ares)
Rice paddy in areas other than Hokkaido	2,200
Rice paddy in Hokkaido	1,700
Fields in areas other than Hokkaido	1,400
Fields in Hokkaido	600
Grassland in areas other than Hokkaido	200
Grassland in Hokkaido	100

Within the communities that are recognized as eligible recipients, if substantial reduction in environmental impact is expected, while achieving highly sustainable farm production methods (e.g. substantial reductions in pesticide use), additional payments will be made (referred to as advanced farm management support).

### **Implications**

Some press articles say that this reform will bring about the biggest sea change in post World War II farm policy. Although direct payments to targeted farmers will encourage consolidation and more effective production, Post is still skeptical of the many potential loopholes. For one, in response to powerful lobbying by the agricultural cooperatives (JA), the eligibility to receive direct payments has been relaxed, allowing for special cases to be made at the discretion of prefectures. This includes allowing communities of non-farmers to receive "environment payments" such as subsidies for cleaning irrigation canals that have little direct effect on the environment. When the authorizing legislation is drawn up next year,

it will be necessary to ensure a strict discipline including a systematic audit system with transparency and integrity so that misuse of taxpayer's money is not allowed.

If MAFF's fundamental goal is to rebuild Japan's agriculture and sustain it by core farmers, targeted direct payments will be an indispensable vehicle. However, it will be equally important to probe into the area of "land use zoning". One of the reasons farmers do not sell their land, making it harder to consolidate, is speculation for windfall capital gains should the land be turned to other uses. In addition, there is little incentive, and in some cases opposition, to private companies leasing plots of land in order to engage in farming in a larger than average scale.

Another, more fundamental threat to Japan's agriculture, is the lack of successors in younger generations. In an ideal world, if farmers can earn a comfortable living primarily from farming, that might be enough to keep them in the rural community. However, the reality is that nearly 80 percent of farmers are part-timers. Their economic well-being depends largely upon the overall economic health of rural communities. This is an issue that needs to be addressed by the Japanese government as a whole, not just by MAFF.